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SUBJECT: OIL MINISTER AND OTHERS ON FUTURE PRODUCTION AND
EXPORTS AND OPEC

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11. (U) Summary: At a recent seminar, Oil Minister Shahrستاني predicted the global oil market will need Iraq's increased production resulting from the ten oilfield development and production contracts from Iraq's 2009 oil bid rounds. The head of Iraq's State Oil Marketing Company (SOMO) predicted that Iraq will achieve production of 7-8 million barrels per day (Mbpd) in 7 years. Shahrستاني affirmed the Government of Iraq's (GOI's) new policy of maximizing revenues from oil exports, not oil exports themselves. He said that OPEC will not dictate Iraq's oil production policy and that Iraq's OPEC production quota should be no less than Saudi Arabia's quota. End summary.

"7-8 Mbpd Production in 7 Years"; the "World Will Need It"

12. (U) Speaking at an Iraq Institute for Economic Reform (IIER) seminar, Oil Minister Hussain al-Shahrستاني provided insight into Iraq's evolving crude oil production and export strategies. He predicted that the global oil market will need at least an additional 10 Mbpd of oil from Iraq, when Iraq is capable of supplying that amount. In response to audience questioning, Shahrستاني conceded that export plans will depend on the development and production plans prepared by the international oil companies (IOCs) for the ten oilfields awarded in the 2009 bid rounds. (Comment: We understand that these development and production plans are due in about a month. End comment.) Shahrستاني predicted that Iraq will be able to maintain peak production for the next 20 years, implying that yet unproven oil reserves would sustain that peak.

13. (U) Speaking after Shahrستاني, State Oil Marketing Company (SOMO) director-general (DG) Falah Alamri predicted that Iraq will achieve oil production of only 7-8 Mbpd in seven years. (Comment: SOMO is responsible for all of Iraq's oil exports. A number of oil industry experts are currently predicting only 6-7 Mbpd in about seven years, but even these lower predictions always come with caveats about potential constraints. End comment.)

But "Maximize Revenues, Not Exports," and "IOCs Must Comply"

14. (U) Shahrستاني affirmed the GOI's new policy of maximizing revenues from oil exports, instead of maximizing oil exports without regard to their affect on oil prices (Ref B). Anticipating audience questions about how this policy

might affect the IOCs and the contracts they were awarded from the 2009 bid rounds, he said the IOCs will be allowed to produce only what Iraq needs to maximize revenues. If Iraq's needs limit the amount of production allowed under the contracts, restrictions would be applied equitably to all the IOCs, Shahrستاني said. He underscored that all ten contracts allowed the GOI to limit production and that the GOI must pay only for oil that is actually produced, not for oil production allowed under the contracts.

"OPEC Will Not Dictate Our Oil Production Policy"

¶5. (U) In response to audience questioning, Shahrستاني insisted that OPEC (Organization of the Petroleum Exporting Countries) will not dictate Iraq's oil production policy. "OPEC decisions are by consensus, so nothing with which Iraq disagrees will become binding," he said. Shahrستاني Qdisagrees will become binding," he said. Shahrستاني reiterated that OPEC should allow production by members who most need it. He said Iraq is in great need as it rebuilds its economy. He pointed out that other OPEC members have benefited from higher production quotas over the past two decades while Iraq's oil production has been well below prior levels. Shahrستاني also emphatically stated that Iraq's OPEC production quota should be no less than any other country. However, he said no discussions of quota with OPEC will be necessary until 2011.

¶6. (U) Comment: Shahrستاني intimated that it is now Iraq's turn to benefit from more lenient OPEC production quotas. Iraq has had no OPEC production quota for almost 12 years (since April 1998), and practically no OPEC production restriction for almost 19 years (since April 1991). To have an OPEC quota that is no less than any other country, Iraq's

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quota would need to equal Saudi Arabia's quota, which is currently 8.095 Mbpd. However, in the past, OPEC has sometimes attempted to maintain parity between the quotas of Iraq and Iran. Iran's current quota is 3.662 Mbpd. Regarding whether quota discussions with OPEC were necessary, Shahrستاني presumably meant that Iraq's actual production increases will be insufficient to warrant discussions until ¶2011. Since OPEC's secretary general has reportedly said Iraq may not need a quota for five years, OPEC also seems to be in no hurry to engage in quota discussions. End comment.

"New Crude and Refined Oil Export Markets Will Be Needed"

¶7. (SBU) The SOMO DG noted that Iraq will need to develop more markets for its crude oil exports after 2011, assuming reasonable production increases from the ten oilfield contracts. He expressed a strong desire to increase oil exports to neighboring countries. In response to audience questioning, Shahrستاني said the GOI wanted to eventually be an exporter of refined oil products. (Comment: We assess that domestic needs will preclude such exports for the foreseeable future and most likely for at least five years. End comment.)

"Iraqi National Oil Company Inevitable and Necessary"

¶8. (U) Also speaking at the IIER seminar, Abdul-Hadi al-Hassani, vice-chair of parliament's oil and gas and natural resources committee, predicted that an Iraqi National Oil Company was inevitable and necessary to Iraq's future. He also lamented Iraq's dependence on oil exports and argued that Iraq must develop other economic sectors.

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